Quarterly ESG Report

Q3 2023

Tracking the Transition

Throughout these newsletters, we've established the importance and benefits of incorporating a sustainable investment strategy in your portfolio. By incorporating various Environmental, Social, and Governance (ESG) factors, you can align your long-term goals for a better world while potentially enhancing your portfolio. This quarter, we'll answer the questions: who is setting key ESG targets and how are they being tracked?

Setting and making commitments to reach certain goals is only the first step of a long and difficult process to ensure progress is being made towards important targets, such as the United Nation's (UN) Sustainable Development Goals (SDGs) for 2030. To give you some background, the UN is the world's largest intergovernmental organization. One branch of their operations includes setting goals to build a more sustainable world and through this work they created the SDGs. There are 17 SDGs, each identifying a key theme affecting our world that we need to address and improve. Every goal has a series of indicators aimed at fulfilling each of the goals by 2030.[1] This framework tends to be the basis that many financial market participants utilize to help track how organizations are performing in various areas of sustainable investing. With targets identified, it is crucial that companies, governments, and society as a whole implement, measure, and monitor them to ensure progress is being made.

Our partners at ISS ESG play an important role in researching and monitoring global developments in those areas to keep us updated. Earlier this year, ISS ESG released an article outlining the top ESG themes to be aware of in 2023 which included the energy transition for net zero, growing awareness of employee well-being at work, and global regulation's move towards increasingly granular "E" and "S" policy. In this quarter's newsletter, we're going to explore one of these major themes as it has developed throughout the first half of the year and discuss how it may affect your portfolio.

> **The Food Industry's Impact on Climate and Biodiversity:** Goal number 15 in the UN's SDGs is "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss".[2]
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> At the beginning of this year, ISS ESG identified the importance of transforming the food industry to avert biodiversity loss. To put the Food Industry's impact into perspective, the agricultural sector is responsible for 90% of global deforestation, mainly due to the mass conversion of forest into cropland.[3] According to ISS ESG's internal Biodiversity Impact Assessment Tool, more than half of the negative impact on biodiversity globally is from food product companies. Further, this sector contributes to approximately one third of global greenhouse gas (GHG) emissions.

Research has shown that agriculture can be very impactful in reducing biodiversity loss and providing climate change mitigation efforts. If the food industry works to transition to regenerative practices in soil health, this can greatly reduce GHG emissions while maintaining the crop yield.[4]

Throughout the first half of this year there have been two developments from organizations in response to biodiversity and climate change risk. These organizations have released reports and tools to help stakeholders with identifying, managing, and reducing the risks, while also noting opportunities.

1. **The Intergovernmental Panel on Climate Change (IPCC)** released its sixth Assessment Report on March 20. The report reinforced how severe the climate crisis is and why we need to take more steps to mitigate GHG emissions. The report separates out various strategies based on feasibility and cost. As an example, reducing conversion of ecosystems into cropland and improving carbon sequestration activities were both identified as being highly cost effective, with a high potential to achieve net GHG emission reductions by 2030.[5] For context, carbon sequestration is the process of stabilizing carbon in solid and dissolved forms so it is not released into the atmosphere to cause warming.[6]
2. **The Taskforce on Nature-related Financial Disclosures (TNFD)** released its final beta framework on nature-related management on March 28. This framework outlines disclosure metrics and provides further guidance (by sector and biome) for integrating climate and nature into sustainability disclosures. Providing this framework and guidance will improve the ease at which the most important metrics can be tracked throughout time and across companies.[7]

As biodiversity loss continues, not only is there increased exposure to negative economic and social impacts, but there is also greater scrutiny of the issues by legislative and regulatory bodies. Both lead to the potential of higher costs and lower revenues for companies, not to mention the increased risk of supply chain disruptions, ultimately affecting the end consumer through shortages and increased prices.[8] This is significant because the food industry impacts us directly, through the food we're buying and as investors. All the factors mentioned above can lead to poor performance of the company, therefore our investments may not perform as well if unexpected costs or disruptions arise.

An example of a prevalent risk in the food industry is palm oil. Let's discuss a specific engagement ISS ESG is conducting on our behalf with the company POSCO International regarding the "alleged failure to prevent deforestation and depletion of biodiversity at oil palm plantations in Indonesia".[9]

Before we get into the specific example, here is information on palm oil and its impacts on the environment. Palm oil is a type of vegetable oil that offers higher yield at a much lower cost than other options.[10] Global production and demand for palm oil has grown exponentially since the 1970s, from about 1.1 million tons in 1970 to 71 million tons thus far in 2023.[11] For reference, more than half of all packaged products in America contain palm oil. The massive growth in popularity for palm oil has led to the destruction of critical habitat for endangered species, air, soil, and water pollution, and climate change; to mention a few areas.[12]

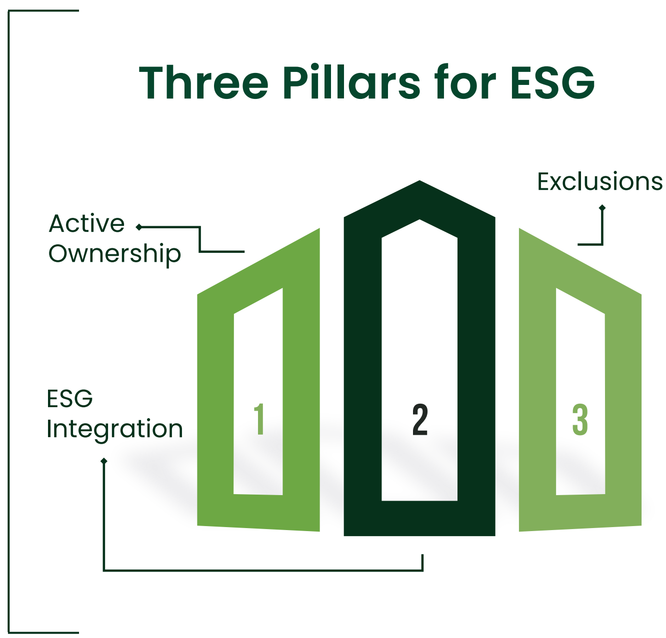
Back to ISS ESG's engagement with POSCO International. POSCO has 85% ownership of a subsidiary that breached OECD Guidelines around deforestation and loss of biodiversity at its palm oil plantations in Indonesia. This breach was identified in 2019 by several non-government organizations (NGOs) requesting the company take remedial steps. ISS ESG has been working directly with POSCO on specific goals to improve their policies and practices regarding the violation. Since the initial engagement, POSCO has adopted and published a comprehensive No Deforestation, No Peat, and No Exploitation (NDPE) policy across its group of companies and has preformed proper assessments on the environmental and social impact of its palm oil business.[13]

By complying with the NDPE standards, POSCO is demonstrating they are committed to reducing their carbon footprint and negative impact on biodiversity, while improving their overall reputation and risk management practices. According to a study conducted by Chain Reaction Research in 2020, "NDPE-compliant refiners have a competitive advantage over leakage refiners in accessing premium markets and avoiding reputational risks".[14] Companies that are ahead of the curve and embrace the importance of pivoting their operations to more sustainable practices are less likely to incur costs or reductions in revenue that can otherwise be avoided. This ultimately increases the probability that the company will be successful over the long-term.

There is a lot of work being done globally to encourage companies to put sustainable practices at the forefront of their business strategies. Increasingly, regulatory pressure is being put on companies to measure, track, and report on key areas, with European regulators and companies acting as early adopters. As more and more research is conducted, countries will improve their systems and continue to implement structures to ensure sustainable reporting and disclosures become as prevalent as standard financial reporting.

At IPC Portfolio Services, we employ multiple approaches to ESG that we believe demonstrate alignment between our investment activities and the broader social and environmental objectives of society. Our Three-Pillar sustainable investing approach promotes positive ESG policies in the companies we hold:

1. **Active Ownership:** We practice active ownership through proxy voting activity and corporate engagement.
2. **ESG Integration:** We encourage our investment specialists to identify, monitor and manage ESG risks and opportunities that are, or could become, material to long-term performance, while recognizing the importance of ESG factors across industries, geography, and time.
3. **Exclusions:** Negative screening of certain companies or practices based upon specific ESG criteria.



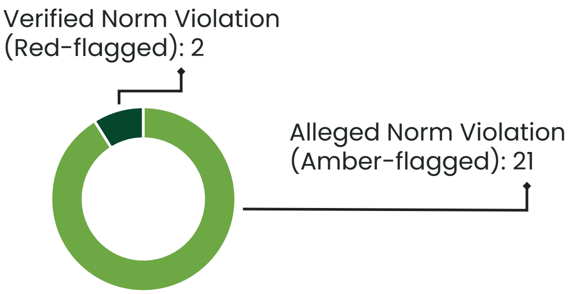
Active Ownership

IPC Portfolio Services has partnered with ISS ESG, an industry leading company for shareholder services, to engage with corporations and assess all economic social governance engagement activities. This partnership enables us to participate alongside other asset managers to exert more influence than we would be able to through individual engagements.

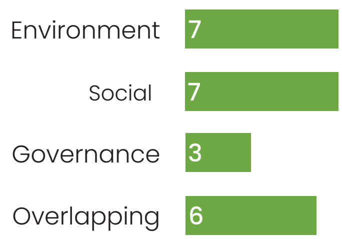
Key Statistics from ISS ESG's Q2 2023 Engagements

In Q2 2023, ISS ESG initiated engagements with 23 companies, covering 35 individual ESG topics. Below are the statistics for the companies engaged with in the quarter.

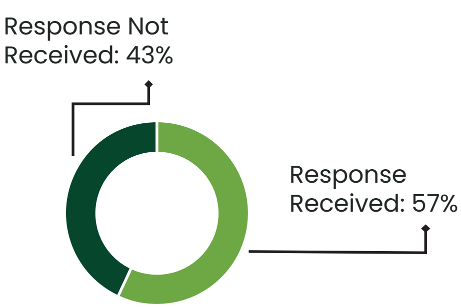
Verified or Alleged Failure to Respect Established Norms



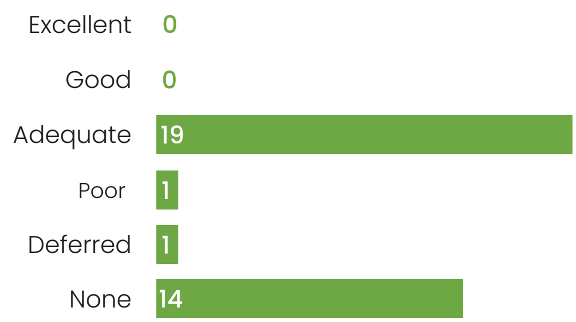
ESG Area Breakdown



Response Rate



Quality of Participation



Summary charts of engagements initiated between April 1 and June 30, 2023.

Note: Participation quality definitions: **Excellent:** Company has fully addressed topics and there is strongly positive development in the engagement. **Good:** Company has replied and addressed the topics. **Adequate:** Company has responded, but not fully. **Poor:** Company responded but did not address the topics. **Deferred:** Company has requested more time to respond. **None:** No response received.

Companies that responded to ISS ESG engagement efforts during Q2 of 2023, for engagements that began in Q2 or earlier, that are held in IPC Portfolio Services' investment solutions:

Company	Theme	Quarter Initiated
Alibaba Group Holding Ltd.	Corruption	Q2 2023
BHP Group Limited	Environment, Human Rights, Labour Rights	Q1 2023
Compass Group PLC	Labour Rights	Q2 2023
Deutsche Telekom AG	Human Rights, Labour Rights	Q1 2023
Electricite de France SA	Environment	Q1 2023
Experian PLC	Human Rights	Q2 2023

Company	Theme	Quarter Initiated
First Quantum Minerals Ltd.	Environment	Q1 2023
Fortescue Metals Group Ltd.	Labour Rights	Q1 2023
Marriott International, Inc.	Human Rights	Q1 2023
PG&E Corp.	Human Rights	Q4 2022
Porsche Automobil Holding SE Pfd.	Environment	Q4 2022
POSCO	Labour Rights, Human Rights, Environment	Q2 2023
PT Indofood Sukses Makmur TBK	Labour Rights	Q2 2023
Stellantis NV	Environment	Q2 2022
TC Energy Corporation	Human Rights	Q1 2023
Tesla, Inc.	Human Rights, Labour Rights	Q1 2023
The Star Entertainment Group Limited	Corruption	Q1 2023
T-Mobile US, Inc.	Labour Rights, Human Rights	Q1 2023

Q3 2023 Engagements

Our partners at ISS ESG have already initiated their Q2 2023 engagements with 25 companies in several countries, across 40 topics. The key themes for this quarter include:

Air and/or water pollution in several countries: these involve companies facing allegations of failure to prevent pollution (air/water).

Discrimination in several countries: these involve companies facing allegations of failure to prevent different forms of discrimination (racial, sexual, workplace).

Standard of living in several countries: These involve a cluster of companies facing allegations of failure to respect the right to an adequate standard of living.

Depletion of biodiversity: These involve companies who have failed to prevent the depletion of biodiversity in various countries.

Indigenous rights: alleged failure to respect indigenous rights in various countries.

Engagement Meetings of Interest:

The goal of these meetings with specific companies is for ISS ESG to review the controversies, engagement targets, and ask questions. The respective company will respond to items identified in the meeting and answer any outstanding questions.

In October, ISS ESG has a scheduled call with **Starbucks Corporation**. Starbucks Corporation is a holding in Counsel Defensive Global Equity, a component of the Counsel Retirement Portfolios. The call was organized to discuss the "verified failure to respect union rights in the United States".

Investment Specialist Spotlight

MACKENZIE
Investments

MACKENZIE INVESTMENTS, Investment Specialist for Counsel Fixed Income

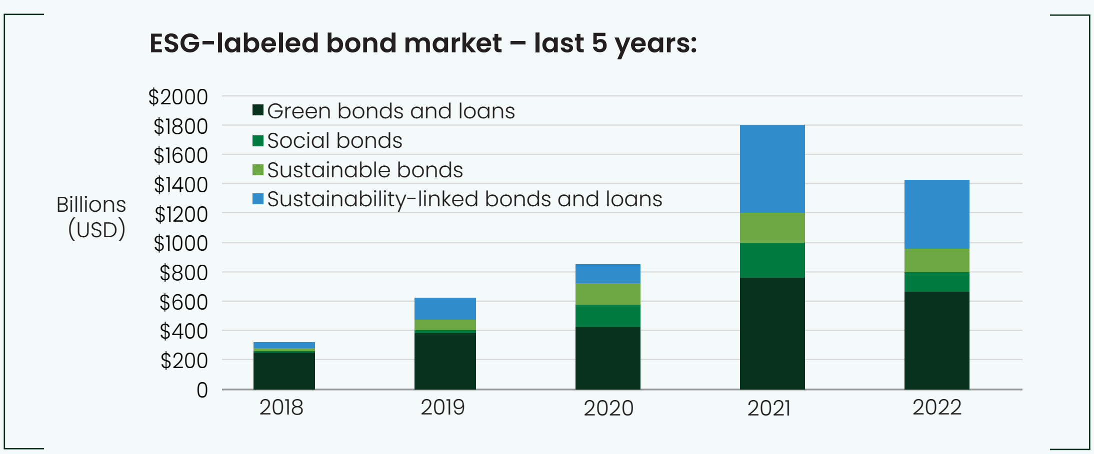
1. **Advisor Perception Study (APS) for Responsible Investing:**
   - **a.** Mackenzie was recognized as the top (# 1 ranking) responsible investing provider in 2023 in Canada, according to research firm Environics. In their most recent study, over 50% of surveyed advisors ranked Mackenzie as their number one provider for responsible investment and ESG solutions.

2. **ESG Integration:**
   - **a.** The Mackenzie Fixed Income Team strives to maintain a balance between the Best-in-class ESG leaders of today (strongest and most progressive ESG profiles) and the improvers of tomorrow (companies issuing sustainable labeled debt where impact is highest).
   - **b. How does the team achieve this?**
     - **i.** Through systematic integration of material ESG factors for corporates and sovereign throughout the investment process to uncover risks and access opportunities.
     - **ii.** The Mackenzie Fixed Income Team Materiality Map is designed as a weighted distribution tree that first considers the materiality weightings of core E, S and G pillar scores before weighting designated themes within each of the individual ESG pillars.
     - **iii.** The team's Corporate Materiality Map considers the weights of 17 Responsible Investing themes and 94 back-tested data points considered over a period of one to five years. Themes under the corporate model include energy usage and management, GHG emissions, transition preparedness, consumer privacy and data security, human rights, and community relationships.
     - **iv.** The team's Sovereign Materiality Map considers 85 unique data points comprising 12 unique Sovereign Sustainability directives. Themes that are ranked include countries' sustainability profile, rewarding governments enacting progressive policies to promote equity, and supporting the transition to a decarbonized and circular economy.
     - **v.** These maps provide the weightings for each data point within the eventual ESG pillar scores that are rescaled onto a 1-10 scale.
   - **c. Visually, Mackenzie's approach can be summarized here:**

ESG labeled debt as a cornerstone of the portfolio	**Best-in-class issuers to construct diversified portfolio with attractive risk-adjusted returns**	Fixed income portfolio combining multiple sustainable investing **strategies** to achieve the most **attractive risk-adjusted returns while delivering impact**

3. **Engagement Case Study: Algonquin Power**
   a. **Issue:** Algonquin Power has always emphasized sustainability as core to their strategy in both their non-regulated power business and regulated utility business.
   b. **Engagement:** Discuss sustainability as part of their business plans and future debt issuance – including green bonds.
   c. **Outcome:** Their renewable power business issued green bonds for the first time. First sustainability day in late 2019 ahead of their investor days.
   d. **Why does it matter?**
      i. Green bonds are a direct way to finance projects with green use of proceeds and have seen tremendous growth over the last couple of years (see point 4 below).
      ii. Corporates are increasingly issuing green bonds, following the lead of governments and financials.

4. **Tremendous growth** in the sustainable debt-mark – cumulative debt issuance since 2018 (end of 2022) – all in USD
   a. **Green bonds** (grown to $2.4T from $243M as of end of 2022) – Green bond market offering is broadening with the issuance of high-yield investment debt.
   b. **Social bonds** (grown to $560M as of end of 2022)
   c. **Sustainable bonds** (grown to $610M as of end of 2022)
   d. **Sustainability-linked bonds** (grown to $1.4T as of end of 2022)
   e. **While each of these segments of the market have grown**, more recently, the quantity of issuance has shifted to quality, as demonstrated by the chart below. Investors can take comfort with the fact that most labelled debt tends to be investment grade. This means that they aren't taking on additional credit risk to invest in these vehicles. Additionally, the yield on our portfolios has tended to be better than the global broad market average, with much more ability to be nimble and react to macro events.



5. **Definitions of main sustainable debt:**
   a. **Green bonds** are debt that is used to finance various climate or environmental-related projects. To become a "labelled" green bond, issuers must apply for certification by a recognized third party.
   b. **Social bonds** are bonds that must be used to achieve positive social outcomes or address various social issues.
   c. **Sustainable bonds** are generally bonds that are used to finance projects that combine both environmental and social issues, or address aspects of both. Issuing this sort of debt allows both corporations and governments to impact a wider range of initiatives.
   d. **Sustainability-linked bonds** are bonds which have a variable component based on their ESG scores or certain set goals the company is attempting to achieve. These bonds generally have a mechanism that gives a strong incentive to the issuer to meet pre-defined sustainability targets, providing strong alignment between the sustainable and financial objectives of the issuer.

Exclusions

The third pillar of our Sustainable Investing process empowers IPC Portfolio Services to ensure our investment specialists do not purchase certain companies. The goal is to avoid companies that are controversial or are in ESG-negative industries because they contribute to health or climate risks and contradict our Sustainable Investing commitment. This list includes:

Controversial weapons – We do not invest in companies involved in the production, use or distribution of anti-personnel land mines and cluster munitions, and companies with verified involvement in weapons such as depleted uranium, nuclear weapons (in violation of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) entered into force in 1970), chemical weapons, biological weapons, incendiary weapons, and white phosphorus weapons.

Tobacco – We exclude companies within the Tobacco sub-sector whose business focus is primarily (50% or greater) based on the manufacture and distribution of tobacco products.

Thermal coal mining – We exclude companies that derive 10% or more of their revenue from thermal coal mining.

Thermal coal power generation – We exclude companies whose power generation output is derived from 20% or greater from the use of coal.

Our Portfolio Management team regularly engages with our investment specialists on their holding of flagged companies to ensure they're aware of the issues and discuss engagement activities with the respective companies. No companies have been removed from our portfolios this quarter due to the above criteria.

Conclusion

Organizations globally, including governments and non-government organizations, have made progress in terms of identifying key risks and opportunities to aid companies in managing the various transitions around sustainable business practices. However, it can be difficult to manage the vast amount of data sources, regulatory frameworks and, reporting standards. Having an investment team you trust to stay up to date on current and emerging trends is extremely important. At IPC Portfolio Services, you can have peace of mind knowing our team and our partners are incorporating what we have identified as the most material standards into all our portfolios through our Three-Pillar Approach.

- IPC Portfolio Services recognizes the importance of delegating complex duties to partners that are immersed in the responsible investing world. Therefore, we utilize ISS ESG as our active ownership partner. Through ISS ESG, we engage with companies in your portfolio to enact change from the ground up for the betterment of society.
- Our second pillar ensures all our investment specialists are incorporating their own ESG due diligence processes. These specialists also work directly with the companies they invest in or are interested in investing in. As evidenced in our Manager Spotlight above, they look at all sustainability factors deeply to understand implications and adjust their portfolios accordingly.
- Finally, by restricting our investment specialists from investing in certain controversial and ESG negative industries we can directly exclude companies that don't align with our sustainable investing philosophy. Additionally, our ESG approach is agile, our Portfolio Management Team is constantly monitoring changes in the market and at the company level to ensure we're ahead of the curve.

Haley Jones, CIM®
Product Manager, ESG Specialist
Investment Planning Counsel

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Sources:
[1] Home | Sustainable Development (un.org); [2] Goal 15 | Department of Economic and Social Affairs (un.org); [3] ISS ESG, Actionable Insights: top ESG Themes in 2023; [4] Article 15, EU Taxonomy; [5] ISS ESG, Actionable Insights: top ESG Themes in 2023; [6] What is Carbon Sequestration and How Does it Work? | CLEAR Center (ucdavis.edu); [7] ISS ESG, Actionable Insights: top ESG Themes in 2023; [8] PRI, Investor Action on Biodiversity: Discussion Paper; [9] ISS ESG; [10] What is Palm Oil? Facts About the Palm Oil Industry (worldwildlife.org); [11] Aging Palm Trees Spell Trouble for Oil That's in Chocolate, Toothpaste - Bloomberg; [12] What is Palm Oil? Facts About the Palm Oil Industry (worldwildlife.org); [13] ISS ESG; [14] NDPE Policies Cover 83% of Palm Oil Refineries; Implementation at 78% - Chain Reaction Research.